

City of Gibraltar, Michigan

**Financial Report
with Supplemental Information
June 30, 2008**

City of Gibraltar, Michigan

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Independent Auditor's Report

To the City Council
City of Gibraltar, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gibraltar, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gibraltar, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gibraltar, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Gibraltar, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gibraltar's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 23, 2008

City of Gibraltar, Michigan

Management's Discussion and Analysis

The following discussion and analysis of the City of Gibraltar's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- State-shared revenue, our second largest revenue source, decreased slightly in the current year.
- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2007/2008 was approximately \$168,000,000, which represents an increase of approximately \$3,000,000, or 1.7 percent. The increase was due to the addition of some development within the City and growth limited to inflation on existing properties.

The City closely monitors discretionary spending by performing periodic budget adjustments. For the year, the fund balance of the General Fund decreased by just over \$1 million. The decrease is a result of transfers from the General Fund to the Water and Sewer Fund and two newly created Special Revenue Funds (Revenue Sharing Stabilization Fund and Retiree Health Fund). The Revenue Sharing Stabilization Fund received a transfer of \$300,000 and the Retiree Health Fund received a transfer of \$500,000 to fund current and future retiree healthcare costs. The General Fund also transferred \$200,000 to the Water and Sewer Fund for capital improvements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Gibraltar, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets	\$ 2,721,774	\$ 3,251,110	\$ 484,332	\$ 397,602	\$ 3,206,106	\$ 3,648,712
Noncurrent assets	<u>7,069,351</u>	<u>7,470,704</u>	<u>9,677,510</u>	<u>9,816,036</u>	<u>16,746,861</u>	<u>17,286,740</u>
Total assets	9,791,125	10,721,814	10,161,842	10,213,638	19,952,967	20,935,452
Liabilities						
Current liabilities	901,702	862,437	477,225	220,177	1,378,927	1,082,614
Long-term liabilities	<u>4,222,608</u>	<u>4,533,973</u>	<u>2,178,989</u>	<u>2,344,476</u>	<u>6,401,597</u>	<u>6,878,449</u>
Total liabilities	<u>5,124,310</u>	<u>5,396,410</u>	<u>2,656,214</u>	<u>2,564,653</u>	<u>7,780,524</u>	<u>7,961,063</u>
Net Assets						
Invested in capital assets - Net of related debt	2,864,935	3,007,078	7,332,163	7,309,041	10,197,098	10,316,119
Restricted	188,155	133,235	82,092	60,193	270,247	193,428
Unrestricted	<u>1,613,725</u>	<u>2,185,091</u>	<u>91,373</u>	<u>279,751</u>	<u>1,705,098</u>	<u>2,464,842</u>
Total net assets	<u>\$ 4,666,815</u>	<u>\$ 5,325,404</u>	<u>\$ 7,505,628</u>	<u>\$ 7,648,985</u>	<u>\$ 12,172,443</u>	<u>\$ 12,974,389</u>

The City has combined net assets of approximately \$12.2 million. Business-type activities comprise approximately \$7.5 million of total net assets. In the current year, the City's combined net assets decreased by approximately \$800,000, which represents a 6 percent decrease over the prior year.

City of Gibraltar, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current and prior year:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Net Assets - Beginning of year	\$ 5,325,404	\$ 4,193,751	\$ 7,648,985	\$ 7,820,888	\$ 12,974,389	\$ 12,014,639
Revenue						
Program revenue:						
Charges for services	371,382	435,758	1,167,562	1,107,527	1,538,944	1,543,285
Operating grants and contributions	361,216	302,906	-	-	361,216	302,906
Capital grants and contributions	-	-	3,150	6,175	3,150	6,175
General revenue:						
Property taxes	2,732,023	3,848,641	-	-	2,732,023	3,848,641
State-shared revenue	412,655	414,953	-	-	412,655	414,953
Unrestricted investment earnings	99,917	102,239	11,080	7,906	110,997	110,145
Transfers and other revenue	-	-	200,000	-	200,000	-
Total revenue	3,977,193	5,104,497	1,381,792	1,121,608	5,358,985	6,226,105
Program Expenses						
General government	1,672,663	1,224,517	-	-	1,672,663	1,224,517
Public safety	1,671,925	1,548,355	-	-	1,671,925	1,548,355
Public works	829,793	913,300	-	-	829,793	913,300
Recreation and culture	77,041	92,289	-	-	77,041	92,289
Interest on long-term debt	184,360	194,383	-	-	184,360	194,383
Water and sewer	-	-	1,525,149	1,293,511	1,525,149	1,293,511
General Expense - Transfers	200,000	-	-	-	200,000	-
Total expenses	4,635,782	3,972,844	1,525,149	1,293,511	6,160,931	5,266,355
Change in Net Assets	(658,589)	1,131,653	(143,357)	(171,903)	(801,946)	959,750
Net Assets - End of year	\$ 4,666,815	\$ 5,325,404	\$ 7,505,628	\$ 7,648,985	\$ 12,172,443	\$ 12,974,389

Governmental Activities

During the current year, the City's governmental revenues decreased by approximately \$1,100,000. The decrease is primarily due to the one time collection of back taxes in conjunction with the steel mill property settlement that occurred in the prior year. A decrease in charges for services, grants, and state-shared revenue also contributed to the decrease in current year revenue.

Program expenses increased by approximately \$663,000 during the current year. The increases were primarily due to wage increases within public safety and fringe benefit increases as well as equipment purchases in public works.

City of Gibraltar, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit water system. We provide sewage treatment through the South Huron Valley Utility Authority. The operations of the current year were fairly consistent with the prior year.

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2008 include the General Fund, Major Streets Fund, and the Land Revolving Fund.

The General Fund pays for most of the City's governmental services. The most significant services relate to the public safety and the public works department, which incurred expenses of approximately \$1,670,000 and \$830,000, respectively, in the current year. The budget in the General Fund is basically a maintenance budget, which means it increases modestly from year to year.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. City departments overall came in at approximately 3.5 percent below budget, resulting in total expenditures of approximately \$163,000 below budget.

Capital Asset and Debt Administration

The City continues to collect and dedicate the millage revenues approved by the voters in November 1998 and 2002 for bond payments related to improvements to streets and the construction of the new municipal complex, respectively.

At the end of 2008, the City had approximately \$16,747,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, roads, and water and sewer lines.

City of Gibraltar, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Because of the impact of Proposal A on the taxable value of properties located within the City, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions.

We anticipate that the water and sewer rates will have to increase in 2009 in order to pass along increases by providers. We are currently in the process of evaluating the amount of increase that will be required.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Gibraltar, Michigan

Statement of Net Assets June 30, 2008

	Primary Government			Component
	Governmental	Business-type		Unit
	Activities	Activities	Total	
Assets				
Cash and investments (Note 2)	\$ 2,318,297	\$ 157,559	\$ 2,475,856	\$ 823,487
Receivables (Note 3)	225,042	295,233	520,275	648
Due from component unit	2,812	-	2,812	-
Internal balances	50,552	(50,552)	-	-
Prepaid costs and other assets	125,071	-	125,071	-
Restricted assets (Note 7)	-	82,092	82,092	-
Capital assets not being depreciated (Note 4)	228,142	26,007	254,149	854,354
Capital assets being depreciated (Note 4)	6,841,209	9,651,503	16,492,712	2,728,966
Total assets	9,791,125	10,161,842	19,952,967	4,407,455
Liabilities				
Accounts payable	127,261	298,218	425,479	21,723
Due to primary government	-	-	-	2,812
Accrued and other liabilities	453,418	12,649	466,067	19,357
Compensated absences:				
Due within one year	45,130	-	45,130	-
Due in more than one year	294,085	-	294,085	-
Noncurrent liabilities (Note 6):				
Due within one year	275,893	166,358	442,251	130,000
Due in more than one year	3,928,523	2,178,989	6,107,512	2,890,000
Total liabilities	5,124,310	2,656,214	7,780,524	3,063,892
Net Assets				
Invested in capital assets - Net of related debt	2,864,935	7,332,163	10,197,098	563,320
Restricted:				
Streets and highways	118,242	-	118,242	-
Debt service	64,599	82,092	146,691	-
Drug forfeiture	5,314	-	5,314	-
Unrestricted	1,613,725	91,373	1,705,098	780,243
Total net assets	<u>\$ 4,666,815</u>	<u>\$ 7,505,628</u>	<u>\$ 12,172,443</u>	<u>\$ 1,343,563</u>

City of Gibraltar, Michigan

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,672,663	\$ 254,280	\$ 51,498	\$ -
Public safety	1,671,925	97,003	71,231	-
Public works	829,793	-	238,487	-
Recreation and culture	77,041	20,099	-	-
Interest on long-term debt	184,360	-	-	-
Total governmental activities	4,435,782	371,382	361,216	-
Business-type activities - Water and sewer	1,525,149	1,167,562	-	3,150
Total primary government	<u>\$ 5,960,931</u>	<u>\$ 1,538,944</u>	<u>\$ 361,216</u>	<u>\$ -</u>
Component unit - Downtown Development Authority	<u>\$ 375,088</u>	<u>\$ -</u>	<u>\$ -</u>	
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2008

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (1,366,885)	\$ -	\$ (1,366,885)	\$ -
(1,503,691)	-	(1,503,691)	-
(591,306)	-	(591,306)	-
(56,942)	-	(56,942)	-
(184,360)	-	(184,360)	-
(3,703,184)	-	(3,703,184)	-
-	(354,437)	(354,437)	-
(3,703,184)	(354,437)	(4,057,621)	-
-	-	-	(375,088)
2,732,023	-	2,732,023	607,433
412,655	-	412,655	-
99,917	11,080	110,997	29,410
(200,000)	200,000	-	-
3,044,595	211,080	3,255,675	636,843
(658,589)	(143,357)	(801,946)	261,755
5,325,404	7,648,985	12,974,389	1,081,808
\$ 4,666,815	\$ 7,505,628	\$ 12,172,443	\$ 1,343,563

City of Gibraltar, Michigan

Governmental Funds Balance Sheet June 30, 2008

		Special Revenue			
	General Fund	Major Streets Fund	Land Revolving Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 919,330	\$ 37,770	\$ 588,139	\$ 773,058	\$ 2,318,297
Accrued interest	172	-	102	1,027	1,301
Other receivables	20,008	-	-	1,696	21,704
Due from other governmental units	86,005	28,702	-	10,095	124,802
Due from component unit	2,812	-	-	-	2,812
Due from other funds	89,348	-	-	-	89,348
Advance to other fund	-	-	113,568	-	113,568
Prepaid expenditures	125,071	-	-	-	125,071
Total assets	<u>\$ 1,242,746</u>	<u>\$ 66,472</u>	<u>\$ 701,809</u>	<u>\$ 785,876</u>	<u>\$ 2,796,903</u>
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 120,281	\$ 3,466	\$ -	\$ 3,514	\$ 127,261
Accrued and other liabilities	56,165	-	-	26,432	82,597
Due to other funds	-	19,398	-	19,398	38,796
Advance from other funds	-	113,568	-	-	113,568
Deposits	326,892	-	-	-	326,892
Total liabilities	503,338	136,432	-	49,344	689,114
Fund Balances (Deficit)					
Reserved for:					
Prepaid expenditures	125,071	-	-	-	125,071
Advance to other fund	-	-	113,568	-	113,568
Unreserved, reported in:					
General Fund	614,337	-	-	-	614,337
Special Revenue Funds	-	(69,960)	588,241	671,933	1,190,214
Debt Service Funds	-	-	-	64,599	64,599
Total fund balances (deficit)	739,408	(69,960)	701,809	736,532	2,107,789
Total liabilities and fund balances (deficit)	<u>\$ 1,242,746</u>	<u>\$ 66,472</u>	<u>\$ 701,809</u>	<u>\$ 785,876</u>	<u>\$ 2,796,903</u>
Fund Balance of Governmental Activities					\$ 2,107,789
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					7,069,351
State-shared revenue related to the current period but not received until the following period is not reported in the funds					77,235
Compensated absences are not included as a liability of the funds					(339,215)
Accrued interest on long-term liabilities is not recorded in the funds					(43,929)
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(4,204,416)
Net Assets of Governmental Activities					<u>\$ 4,666,815</u>

City of Gibraltar, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2008

		Special Revenue			
	General Fund	Major Streets Fund	Land Revolving Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 2,311,664	\$ -	\$ -	\$ 420,359	\$ 2,732,023
Licenses and permits	49,880	-	-	-	49,880
Federal grants	46,914	-	-	-	46,914
State-shared revenues, grants, and other state aid	490,702	175,236	-	61,608	727,546
Cable fees	-	-	-	6,579	6,579
Other charges for services	86,956	-	-	-	86,956
Fines and forfeitures	29,922	-	-	-	29,922
Interest and rentals	64,591	3,376	5,408	26,540	99,915
Other	192,159	-	3,456	110	195,725
Total revenue	3,272,788	178,612	8,864	515,196	3,975,460
Expenditures					
Current:					
General government	1,297,112	-	-	-	1,297,112
Public safety	1,660,264	-	-	60,463	1,720,727
Public works	716,993	-	-	-	716,993
Community maintenance and development	-	36,476	430	54,866	91,772
Recreation and culture	49,628	-	-	-	49,628
Public improvement grants	52,512	-	-	-	52,512
Other	-	-	-	1,470	1,470
Debt service - Interest	-	-	-	179,968	179,968
Debt service - Principal repayment	-	-	-	220,000	220,000
Total expenditures	3,776,509	36,476	430	516,767	4,330,182
Excess of Revenue Over (Under) Expenditures	(503,721)	142,136	8,434	(1,571)	(354,722)
Other Financing Sources (Uses)					
Transfers in	-	-	-	327,263	327,263
Transfers out	(520,000)	(2,862)	-	(4,401)	(527,263)
Total other financing sources (uses)	(520,000)	(2,862)	-	322,862	(200,000)
Net Change in Fund Balances	(1,023,721)	139,274	8,434	321,291	(554,722)
Fund Balances (Deficit) - Beginning of year	1,763,129	(209,234)	693,375	415,241	2,662,511
Fund Balances (Deficit) - End of year	\$ 739,408	\$ (69,960)	\$ 701,809	\$ 736,532	\$ 2,107,789

City of Gibraltar, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ (554,722)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	74,401
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Governmental funds depreciation expense on fixed assets is reported as an expense on the statement of activities and are not reported as an expense for fund purposes	(475,754)
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State-shared revenue is recorded when earned in the statement of activities versus when available in the governmental funds	1,731
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	259,210
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Accrued interest expense on long-term debt is recorded in the statement of activities	4,052
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Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	32,493
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Change in Net Assets of Governmental Activities	<u>\$ (658,589)</u>
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City of Gibraltar, Michigan

Proprietary Fund Statement of Net Assets June 30, 2008

	Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 157,559
Accounts receivable - Customers	295,233
Total current assets	452,792
Noncurrent assets:	
Restricted assets	82,092
Capital assets - Net	9,677,510
Total noncurrent assets	9,759,602
Total assets	10,212,394
Liabilities	
Current liabilities:	
Accounts payable	298,218
Accrued liabilities	12,649
Due to other funds	50,552
Current portion of long-term debt	166,358
Total current liabilities	527,777
Noncurrent liabilities - Long-term debt - Net of current portion	2,178,989
Total liabilities	2,706,766
Net Assets	
Investment in capital assets - Net of related debt	7,332,163
Restricted for debt service	82,092
Unrestricted	91,373
Total net assets	\$ 7,505,628

City of Gibraltar, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Water and Sewer Fund
Operating Revenue	
Sewage disposal	\$ 516,820
Sale of water	432,814
Other charges for services	<u>1,521</u>
Total operating revenue	951,155
Operating Expenses	
Cost of water produced/purchased	254,686
Cost of sewage disposal	553,357
Operation and maintenance	46,172
General and administrative	287,821
Depreciation	<u>316,999</u>
Total operating expenses	<u>1,459,035</u>
Operating Loss	(507,880)
Nonoperating Income (Expense)	
Interest income	11,080
Tap-in fees	3,150
Interest expense	(66,114)
Debt service charges	<u>216,407</u>
Total nonoperating income	164,523
Transfers from Other Funds	<u>200,000</u>
Change in Net Assets	(143,357)
Net Assets - July 1, 2007	<u>7,648,985</u>
Net Assets - June 30, 2008	<u><u>\$ 7,505,628</u></u>

City of Gibraltar, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2008

	Enterprise - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 899,271
Payments to suppliers and employees	(638,827)
Internal activity - Reimbursements to other funds	<u>(304,286)</u>
Net cash used in operating activities	(43,842)
Cash Flows from Capital and Related Financing Activities	
Principal payments on long-term debt	(161,648)
Debt service charges	216,407
Interest paid on bonds	(66,114)
Transfer in from the General Fund	200,000
Purchase of capital assets	(178,473)
Tap-in fees	<u>3,150</u>
Net cash provided by capital and related financing activities	13,322
Cash Flows from Investing Activities - Interest received on investments	<u>11,080</u>
Net Decrease in Cash and Cash Equivalents	(19,440)
Cash and Cash Equivalents - Beginning of year	<u>189,385</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 169,945</u></u>
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and cash equivalents	\$ 157,559
Restricted assets (Note 7)	<u>12,386</u>
Total cash and cash equivalents	<u><u>\$ 169,945</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (507,880)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	316,999
Changes in assets and liabilities:	
Receivables	(55,235)
Other assets	3,351
Interfund activity	(54,286)
Accounts payable and accrued liabilities	<u>253,209</u>
Net cash used in operating activities	<u><u>\$ (43,842)</u></u>

City of Gibraltar, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2008

	Pension and Other Postemployment Benefits Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 1,096,924	\$ 12,852
Stocks and mutual funds	5,560,859	-
Bonds	2,143,244	-
Receivables - Accrued interest	<u>14,926</u>	<u>-</u>
Total assets	8,815,953	<u><u>\$ 12,852</u></u>
Liabilities		
Accounts payable	-	\$ 38
Due to other governmental units	-	12,360
Insurance deposits	<u>-</u>	<u>454</u>
Total liabilities	<u>-</u>	<u><u>\$ 12,852</u></u>
Net Assets - Held in trust for pension and other postemployment benefits	<u><u>\$ 8,815,953</u></u>	

City of Gibraltar, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008

	Pension and Other Postemployment Benefits Fund
Additions	
Investment income (loss):	
Interest and dividends	\$ 179,401
Investment expense	(37,839)
Net decrease in fair value of investments	<u>(775,587)</u>
Net investment loss	(634,025)
Contributions:	
Employer	568,778
Employee	<u>64,369</u>
Total contributions	<u>633,147</u>
Net additions	(878)
Deductions - Benefit payments	<u>344,068</u>
Net Decrease in Net Assets	(344,946)
Net Assets Held in Trust for Pension and Other Postemployment Benefits	
Beginning of year	<u>9,160,899</u>
End of year	<u><u>\$ 8,815,953</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Gibraltar, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected six-member council and mayor. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The Downtown Development Authority (the “Authority”) is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. The Downtown Development Authority was created to promote economic growth within the downtown district. The Authority’s governing body consists of nine individuals, all of whom are approved by the City Council. In addition, the Authority’s budget is subject to approval by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; in this case, receivables are recorded for these, along with a "deferred revenue" liability. All other revenue items are considered to be available only when cash is received by the City.

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Major Streets Fund - The Major Streets Fund is used to account for the construction and maintenance of the City's major streets. Revenues received under Act 51 for use on major streets are recorded in this fund.

Land Revolving Fund - The Land Revolving Fund is used to account for proceeds from City land sales as well as any expenditures made with these funds for community improvements.

The City reports the following major proprietary fund:

Enterprise Fund - The Enterprise Fund - Water and Sewer Fund is used to account for the results of operations that provide a service to citizens and are financed primarily by a user charge for the provision of that service.

Additionally, the City reports the following fund types:

Pension Trust Funds - The Pension Trust Funds account for the resources set aside by the City to provide retirement benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.

Retiree Health Care Fund - The Retiree Health Care Fund was established in compliance with Public Act 149 of 1999 and accounts for the accumulated resources which have been set aside to fund postretirement healthcare costs.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2007 taxable valuation of the City totaled \$168 million (a portion of which is abated and a portion of which is captured by the DDA) on which taxes levied consisted of 15 mills for operating purposes, 1.2 mills for solid waste services, and 2.6 mills for debt service. This resulted in \$2.1 million for operating, \$173,000 for solid waste services, and \$420,000 for debt service. These amounts are recognized in the General and Debt Service Funds financial statements as tax revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10 to 25 years
Water and sewer distribution systems	50 to 75 years
Buildings and building improvements	40 years
Vehicles	3 to 10 years
Furniture and equipment	5 to 15 years

Note I - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick and vacation pay is accrued when earned. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investments vehicles.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in those investment vehicles listed above under the state statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk. At year end, the City had \$2,780,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. At year end, the Downtown Development Authority had \$580,000 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Investment pools (pension)	\$ 347,154	7.72 years
U.S. government or agency (pension)	1,264,770	11.46 years
Corporate bonds (pension)	531,319	6.93 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Investment pools (pension)	\$ 1,646,372	Not Rated	
Mutual funds (pension)	4,869,712	Not Rated	
Corporate bonds (pension)	43,260	AAA	Moody's
	9,837	AA1	Moody's
	83,431	AA2	Moody's
	64,004	AA3	Moody's
	98,501	A1	Moody's
	115,045	A2	Moody's
	9,870	A3	Moody's
	46,486	BAA1	Moody's
	34,538	BAA2	Moody's
	26,347	BAA3	Moody's
U.S. agencies not explicitly guaranteed by the U.S. government (pension)	300,513	AAA	Moody's
	803,720	Not Rated	

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, business type, and component unit, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Streets Fund	Land Revolving Fund	Nonmajor and Other Funds	Total Governmental	Business-type	Component Unit
Receivables:							
Intergovernmental	\$ 163,240	\$ 28,702	\$ -	\$ 10,095	\$ 202,037	\$ -	\$ -
Customers	-	-	-	-	-	295,233	-
Interest and other	20,180	-	102	2,723	23,005	-	648
Less allowance for uncollectibles	-	-	-	-	-	-	-
Net receivables	<u>\$ 183,420</u>	<u>\$ 28,702</u>	<u>\$ 102</u>	<u>\$ 12,818</u>	<u>\$ 225,042</u>	<u>\$ 295,233</u>	<u>\$ 648</u>

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Governmental Activities				
Capital assets not being depreciated - Land	\$ 228,142	\$ -	\$ -	\$ 228,142
Capital assets being depreciated:				
Roads and sidewalks	5,110,274	-	-	5,110,274
Buildings and improvements	3,667,832	-	-	3,667,832
Vehicles	1,797,512	51,799	-	1,849,311
Furniture and equipment	783,139	22,602	-	805,741
Subtotal	11,358,757	74,401	-	11,433,158
Accumulated depreciation:				
Roads and sidewalks	1,708,450	248,774	-	1,957,224
Buildings and improvements	516,571	81,401	-	597,972
Vehicles	1,251,333	110,021	-	1,361,354
Furniture and equipment	639,841	35,558	-	675,399
Subtotal	4,116,195	475,754	-	4,591,949
Net capital assets being depreciated	<u>7,242,562</u>	<u>(401,353)</u>	<u>-</u>	<u>6,841,209</u>
Net capital assets	<u>\$ 7,470,704</u>	<u>\$ (401,353)</u>	<u>\$ -</u>	<u>\$ 7,069,351</u>

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated - Land	\$ 26,007	\$ -	\$ -	\$ 26,007
Capital assets being depreciated:				
Water and sewer distribution systems	13,446,813	178,473	-	13,625,286
Equipment	538,528	-	-	538,528
Subtotal	13,985,341	178,473	-	14,163,814
Accumulated depreciation	4,195,312	316,999	-	4,512,311
Net capital assets being depreciated	9,790,029	(138,526)	-	9,651,503
Net capital assets	<u>\$ 9,816,036</u>	<u>\$ (138,526)</u>	<u>\$ -</u>	<u>\$ 9,677,510</u>

Capital asset activity for the City of Gibraltar's component unit for the year was as follows:

Downtown Development Authority	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated -				
Land	\$ 834,731	\$ -	\$ -	\$ 834,731
Construction in progress	-	19,623	-	19,623
Subtotal	834,731	19,623	-	854,354
Capital assets being depreciated:				
Buildings and improvements	2,934,405	-	-	2,934,405
Furniture and equipment	209,497	-	-	209,497
Subtotal	3,143,902	-	-	3,143,902
Accumulated depreciation:				
Buildings and improvements	198,075	66,025	-	264,100
Furniture and equipment	113,127	37,709	-	150,836
Subtotal	311,202	103,734	-	414,936
Net capital assets being depreciated	2,832,700	(103,734)	-	2,728,966
Net capital assets	<u>\$ 3,667,431</u>	<u>\$ (84,111)</u>	<u>\$ -</u>	<u>\$ 3,583,320</u>

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government and component unit as follows:

Governmental activities:

General government	\$ 314,816
Public safety	85,809
Public works	47,716
Recreation and culture	<u>27,413</u>

Total governmental activities	<u>\$ 475,754</u>
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Business-type activities - Water and sewer	<u>\$ 316,999</u>
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Component unit activities	<u>\$ 103,734</u>
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Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Other governmental funds	\$ 19,398
General Fund	Major Street Fund	19,398
General Fund	Water and Sewer Fund	<u>50,552</u>
Total		<u>\$ 89,348</u>

Advances from/to Other Funds

Land Revolving Fund	Major Street Fund	<u>\$ 113,568</u>
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Due to/from Primary Government and Component Units

General Fund	DDA	<u>\$ 2,812</u>
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These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other nonmajor governmental funds	\$ 320,000
General Fund	Water and Sewer Fund	200,000
Major Streets Fund	Other nonmajor governmental funds	2,862
Local Streets Fund	Other nonmajor governmental funds	4,401
Total transfers		<u>\$ 527,263</u>

The transfers from the General Fund to other nonmajor governmental funds and to the fiduciary fund represent the use of unrestricted resources to finance various programs. The transfer from the General Fund to the Water and Sewer Fund represents the use of unrestricted resources to fund capital improvements. In accordance with budgetary authorizations, the transfers from the Major Streets Fund and the Local Streets Fund to the Road Bonds Fund, represent the movement of resources to be used to service street-related debt.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
Road Unlimited Tax Bonds:							
Amount of issue: \$2,500,000	4.00% -	\$180,000 -					
Maturing through 2013	4.25%	\$230,000	\$ 1,400,000	\$ -	\$ (170,000)	\$ 1,230,000	\$ 180,000
General Obligation Unlimited Tax Bonds:							
Amount of issue: \$3,000,000	2.25% -	\$55,000 -					
Maturing through 2034	4.75%	\$200,000	2,850,000	-	(50,000)	2,800,000	55,000
Installment purchase agreements -							
Fire truck installment note:							
Amount of issue: \$355,906		\$40,893-					
Maturing through 2012	4.29%	\$46,392	213,626	-	(39,210)	174,416	40,893
Total governmental activities			<u>\$ 4,463,626</u>	<u>\$ -</u>	<u>\$ (259,210)</u>	<u>\$ 4,204,416</u>	<u>\$ 275,893</u>
Governmental compensated absences			<u>\$ 371,708</u>	<u>\$ 27,930</u>	<u>\$ (60,423)</u>	<u>\$ 339,215</u>	<u>\$ 45,130</u>

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds:							
South Huron Valley Utility Authority							
Wastewater Bonds:							
Amount of issue: \$461,433		\$48,461 -					
Maturing through 2011	2.00%	\$50,267	\$ 195,650	\$ -	\$ (47,558)	\$ 148,092	\$ 48,461
South Huron Valley Utility Authority							
Sewer System Plant Expansion Bonds:							
Amount of issue: \$1,137,791		\$53,438 -					
Maturing through 2021	2.00%	\$69,683	849,443	-	(51,283)	798,160	53,438
South Huron Valley Utility Authority							
Sewer System Plant Expansion Bonds:							
Amount of issue: \$1,523,882		\$64,459 -					
Maturing through 2026	2.125%	\$92,557	1,461,902	-	(62,807)	1,399,095	64,459
Total business-type activities			\$ 2,506,995	\$ -	\$ (161,648)	\$ 2,345,347	\$ 166,358

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 275,893	\$ 181,207	\$ 457,100	\$ 166,358	\$ 49,507	\$ 215,865
2010	287,650	170,150	457,800	169,982	45,945	215,927
2011	304,481	158,372	462,853	172,994	42,303	215,297
2012	316,392	145,861	462,253	126,731	39,108	165,839
2013	285,000	132,638	417,638	128,598	36,352	164,950
2014-2018	595,000	543,836	1,138,836	686,220	138,173	824,393
2019-2023	475,000	440,974	915,974	621,064	62,797	683,861
2024-2028	630,000	313,731	943,731	273,400	11,644	285,044
2029-2033	835,000	146,728	981,728	-	-	-
2034	200,000	4,625	204,625	-	-	-
Total	\$ 4,204,416	\$ 2,238,122	\$ 6,442,538	\$ 2,345,347	\$ 425,829	\$ 2,771,176

Component Units - Long-term debt of the component units consists of one bond issue in the amount of \$3,500,000 maturing through 2024 and bearing interest at rates ranging from 2.25 percent to 4.35 percent. As of year end, the remaining principal balance was \$3,020,000.

Note 7 - Restricted Assets

Specific assets of the Enterprise Fund have been restricted to pay the various sewer and wastewater bonds. These funds were generated through specific user charges. Net assets have been reserved for net restricted assets. Following is the detail of restricted assets at June 30, 2008:

Cash and cash equivalents	\$ 12,386
Accounts receivable	<u>69,706</u>
Total restricted assets	<u>\$ 82,092</u>

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and participates in the Michigan Municipal Risk Management Authority risk pool for general and property claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's state pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 9 - Defined Benefit Pension Plans

Public Safety Officers' Retirement System

Plan Description - The Public Safety Officers' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Gibraltar Public Safety Officers' Retirement System Pension Board. This plan covers all full-time public safety employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of 10 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 10 active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 7 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Funded Status and Funding Progress - As of June 30, 2007, the most recent actuarial valuation date, the plan was 121.0 percent funded. The actuarial accrued liability for benefits was \$6.4 million, and the actuarial value of assets was \$7.8 million, resulting in an overfunded actuarial accrued liability of \$1.4 million. The covered payroll (annual payroll for active employees covered by the plan) was \$700,000.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 9 - Defined Benefit Pension Plans (Continued)

Annual Pension Cost - For the year ended June 30, 2008, the City's annual pension cost of \$27,849 was equal to the City's actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2007, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.0 percent investment rate of return, (b) projected salary increases of 5.5 percent to 8.5 percent per year (both (a) and (b) include inflation adjustments of 5 percent annually), and (c) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 22 years.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 27,849	\$ 25,594	\$ 26,679
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Reserves - As of June 30, 2008, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 396,776
Reserve for retired benefit payments	4,302,081

General Employees' Retirement System

Plan Description - The General Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Gibraltar General Employees' Retirement System Pension Board. This plan covers certain full-time general employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of two retirees currently receiving benefits, and seven current active employees. The plan does not issue a separate financial report.

Note 9 - Defined Benefit Pension Plans (Continued)

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Employees are obligated to contribute 5.0 percent of their total compensation.

Funded Status and Funding Progress - As of June 30, 2007, the most recent actuarial valuation date, the plan was 87.9 percent funded. The actuarial accrued liability for benefits was \$1.2 million, and the actuarial value of assets was \$1.1 million, resulting in an unfunded actuarial accrued liability of \$.15 million. The covered payroll (annual payroll for active employees covered by the plan) was \$.33 million, and the ratio for the unfunded actuarial accrued liability to the covered payroll was 44 percent.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual Pension Cost - For the year ended June 30, 2008, the City's annual pension cost of \$40,929 was equal to the City's actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2007, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 6.0 investment rate of return (b) projected salary increases of 3.5 percent per year attributable to inflation, and (c) no postretirement benefit increases. The actuarial value of assets was determined using fair market value. The unfunded actuarial liability is being amortized over the average future working lifetime of the plan participants.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 40,929	\$ 52,290	\$ 71,704
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 9 - Defined Benefit Pension Plans (Continued)

Reserves - As of June 30, 2008, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 312,922
Reserve for retired benefit payments	68,785

Note 10 - Other Postemployment Benefits

The City provides healthcare benefits to retirees in accordance with labor contracts. Currently, 20 retirees are eligible. The City includes retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due. These benefits are paid annually from the General Fund and totaled \$325,952 during the year ended June 30, 2008.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Note 11 - Joint Venture

33rd District Court - The City is a member of the 33rd District Court System (the "District Court"). The City appoints one member to the joint venture's governing board, who then approves the annual budget. The District Court receives its operating revenue principally through contributions from the member communities. During the year ended June 30, 2008, the City received net fines and forfeitures of approximately \$29,920.

Complete financial statements for the District Court can be obtained from the administrative offices at 19000 Van Horn Rd., Woodhaven, MI 48183. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

City of Gibraltar, Michigan

Notes to Financial Statements June 30, 2008

Note 11 - Joint Venture (Continued)

South Huron Valley Utility Authority - The City is a member of the South Huron Valley Utility Authority (SHVUA), which provides sanitary sewage disposal services. Each of the eight member communities appoints one member to the board. SHVUA receives its operating revenue through charges to the communities. The City's share of the debt of the joint venture, which is recorded in the Water and Sewer Fund, is being financed by the City through debt service charges. During the year ended June 30, 2008, the City paid operating costs of \$399,049. In addition, the City paid \$161,648 in principal payments and \$53,465 in interest expense. The City also recorded an additional liability of \$154,308 in the current year resulting from a lookback calculation prepared by SHVUA related to its proportionate share of estimated sewage treatment costs. Complete financial statements for SHVUA can be obtained from the administrative offices at 46425 Tyler Road, Belleville, MI 48111.

Note 12 - Construction Code Fees

The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that these fees are used only for construction code costs, including an allocation of estimated overhead costs. The amount of the cumulative surplus at year end is reserved within the General Fund fund balance. A summary of the activity since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2007	\$ (3,251)
Current year building permit revenue	30,941
Current year related expenditures:	
Direct costs	\$ 21,143
Estimated indirect costs	<u>35,000</u>
Total construction code expenditures	<u>56,143</u>
Cumulative shortfall at June 30, 2008	<u><u>\$ (28,453)</u></u>

Note 13 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted for the General Fund and all Special Revenue Funds on an activity basis.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in “revenue” and “expenditure” categories, rather than “other financing sources (uses).”
- Reimbursements from other funds of \$250,000 have been included in revenue, rather than as a reduction of expenditures.

Any expenditures that exceed the budget must be approved by the City Council through a budget amendment. The City Council approves all budget amendments. All annual appropriations lapse at fiscal year end.

The budget process begins in March, with the finance director’s budgeting the personnel and fringe benefits expense for all City employees and providing each department with a budget form to be completed by the department head. When these forms are returned, the finance director then analyzes these amounts and calculates the total budget.

After the final review, the finance director organizes the final proposed budget to deliver to the City Council. The City Charter requires that the City Council adopt a budget by the second meeting in May.

City Council meetings, held in early May, provide all interested citizens an open forum where their concerns can be heard. Upon review, and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

After the budget has been adopted, all budget amendments must be approved by the City Council.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

General Fund	Final Budget	Actual	Variance
Assessor	\$ 39,430	\$ 42,180	\$ (2,750)
Transfers to other funds	1,000,000	1,020,000	(20,000)

Note 13 - Stewardship, Compliance, and Accountability (Continued)

The unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

Fund Deficit - The City has an accumulated deficit in the Major Streets Fund. The deficit will be eliminated through receipt of future Act 51 revenues.

Required Supplemental Information

City of Gibraltar, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 1,763,129	\$ 1,763,129	\$ 1,763,129	\$ -
Revenues				
Property taxes	2,360,040	2,360,040	2,311,664	(48,376)
Federal sources	73,300	73,300	46,914	(26,386)
State sources	593,138	597,138	490,702	(106,436)
Fees and permits	69,000	70,000	49,880	(20,120)
Fines and forfeitures	16,000	16,000	29,922	13,922
Charges for services	353,000	353,000	336,956	(16,044)
Interest income	84,517	84,517	64,591	(19,926)
Other	140,200	156,200	192,159	35,959
Total revenues	3,689,195	3,710,195	3,522,788	(187,407)
Expenditures				
General government:				
General government	273,752	252,952	239,304	13,648
Clerk	82,319	86,319	79,722	6,597
Attorney	80,000	90,000	89,998	2
Finance	125,541	125,541	122,939	2,602
Public library	16,000	16,000	10,409	5,591
Refuse collection	195,000	195,000	189,306	5,694
Parks and recreation	62,452	62,452	39,219	23,233
Engineering/Inspection	33,300	33,300	23,813	9,487
Assessor	30,130	39,430	42,180	(2,750)
Grants	67,900	80,900	52,512	28,388
Elections	20,000	14,500	9,850	4,650
Public safety:				
Police	1,490,685	1,490,685	1,442,724	47,961
Fire	205,374	225,374	217,540	7,834
Public works	1,005,742	996,742	966,993	29,749
Transfers to other funds	-	1,000,000	1,020,000	(20,000)
Total expenditures	3,688,195	4,709,195	4,546,509	162,686
Fund Balance - End of year	\$ 1,764,129	\$ 764,129	\$ 739,408	\$ (24,721)

City of Gibraltar, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Deficit - Beginning of year	\$ (209,234)	\$ (209,234)	\$ (209,234)	\$ -
Revenues				
State sources	169,914	169,914	175,236	5,322
Interest income	<u>4,000</u>	<u>4,000</u>	<u>3,376</u>	<u>(624)</u>
Total revenues	173,914	173,914	178,612	4,698
Expenditures				
Engineering fees	3,000	3,000	2,708	292
Traffic services	3,000	3,000	231	2,769
Snow and ice removal	20,000	20,000	19,275	725
Accounting service expense	3,500	3,500	2,360	1,140
Transfer to other fund	2,862	2,862	2,862	-
Maintenance	<u>12,000</u>	<u>12,000</u>	<u>11,902</u>	<u>98</u>
Total expenditures	<u>44,362</u>	<u>44,362</u>	<u>39,338</u>	<u>5,024</u>
Deficit - End of year	<u><u>\$ (79,682)</u></u>	<u><u>\$ (79,682)</u></u>	<u><u>\$ (69,960)</u></u>	<u><u>\$ 9,722</u></u>

City of Gibraltar, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Land Revolving Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 693,375	\$ 693,375	\$ 693,375	\$ -
Revenues				
Interest income	2,600	2,600	5,408	2,808
Other	-	-	3,456	3,456
Total revenues	2,600	2,600	8,864	6,264
Expenditures - Improvements	2,600	2,600	430	2,170
Fund Balance - End of year	<u>\$ 693,375</u>	<u>\$ 693,375</u>	<u>\$ 701,809</u>	<u>\$ 8,434</u>

City of Gibraltar, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2008

The schedule of funding progress is as follows (in thousands of dollars):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
General Employees' Retirement System						
6/30/01	\$ 668	\$ 772	\$ 104	86.5	\$ 301	34.5
6/30/02	566	734	168	77.1	292	57.5
6/30/03	618	844	226	73.2	352	64.2
6/30/04	747	964	217	77.5	363	59.8
6/30/05	827	999	171	82.9	317	53.9
6/30/06	905	1,070	164	84.6	319	51.5
6/30/07	1,071	1,218	147	87.9	333	44.1
Public Safety Officers' Retirement System						
6/30/01	\$ 7,100	\$ 5,400	\$ (1,700)	131.5	\$ 800	-
6/30/02	7,200	5,900	(1,300)	122.0	900	-
6/30/03	7,300	6,000	(1,300)	121.7	800	-
6/30/04	7,200	6,400	(800)	113.0	700	-
6/30/05	7,200	6,500	(700)	111.0	700	-
6/30/06	7,400	6,500	(900)	110.0	600	-
6/30/07	7,800	6,400	(1,350)	121.0	700	-

City of Gibraltar, Michigan

Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2008

The schedule of employer contributions is as follows:

General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/03	6/30/02	\$ 44,470	79
6/30/04	6/30/03	112,129	100
6/30/05	6/30/04	65,418	54
6/30/06	6/30/05	71,704	100
6/30/07	6/30/06	52,290	100
6/30/08	6/30/07	40,929	100

Public Safety Officers' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/03	6/30/02	\$ -	-
6/30/04	6/30/03	-	-
6/30/05	6/30/04	-	-
6/30/06	6/30/05	26,679	100
6/30/07	6/30/06	25,594	100
6/30/08	6/30/07	27,849	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2007, the latest actuarial valuation, for the General Employees' and the Public Safety Officers' Retirement Systems, is as follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level dollar method
Remaining amortization period (perpetual)	13 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%
Cost of living adjustments	None

Public Safety Officers' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	14 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.0%
Projected salary increases*	5.5%-8.5%
*Includes inflation at	5.0%

Other Supplemental Information

City of Gibraltar, Michigan

Special Revenue Funds						
	Local Streets	Cable TV	City Project	Public Safety Severance Reserve	Public Works Severance Reserve	Drug Forfeiture
Assets						
Cash and investments	\$ 130,968	\$ 27,191	\$ 150,127	\$ 27,622	\$ 58,173	\$ 5,314
Accrued interest and dividends	43	17	92	340	202	-
Due from other governmental units	10,095	-	-	-	-	-
Other receivables	-	1,696	-	-	-	-
Total assets	<u>\$ 141,106</u>	<u>\$ 28,904</u>	<u>\$ 150,219</u>	<u>\$ 27,962</u>	<u>\$ 58,375</u>	<u>\$ 5,314</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 3,466	\$ 48	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	26,432	-	-
Due to other funds	19,398	-	-	-	-	-
Total liabilities	22,864	48	-	26,432	-	-
Fund Balances - Unreserved	<u>118,242</u>	<u>28,856</u>	<u>150,219</u>	<u>1,530</u>	<u>58,375</u>	<u>5,314</u>
Total liabilities and fund balances	<u>\$ 141,106</u>	<u>\$ 28,904</u>	<u>\$ 150,219</u>	<u>\$ 27,962</u>	<u>\$ 58,375</u>	<u>\$ 5,314</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

Debt Service Funds			
Revenue Sharing Stabilization	Road Bond	City Hall Bonds	Total Nonmajor Governmental Funds
\$ 309,075	\$ 42,613	\$ 21,975	\$ 773,058
322	-	11	1,027
-	-	-	10,095
-	-	-	1,696
\$ 309,397	\$ 42,613	\$ 21,986	\$ 785,876
\$ -	\$ -	\$ -	\$ 3,514
-	-	-	26,432
-	-	-	19,398
-	-	-	49,344
309,397	42,613	21,986	736,532
\$ 309,397	\$ 42,613	\$ 21,986	\$ 785,876

City of Gibraltar, Michigan

	Special Revenue Funds					
	Local Streets	Cable TV	City Project	Public Safety Severance Reserve	Public Works Severance Reserve	Drug Forfeiture
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	61,608	-	-	-	-	-
Cable fees	-	6,579	-	-	-	-
Interest income	3,646	880	5,713	1,915	1,883	30
Tipping fees and other	-	-	-	-	-	110
Total revenue	65,254	7,459	5,713	1,915	1,883	140
Expenditures						
Community maintenance and development	36,283	3,083	15,500	-	-	-
Other	-	-	-	750	200	-
Benefit payments	-	-	-	60,463	-	-
Debt service	-	-	-	-	-	-
Total expenditures	36,283	3,083	15,500	61,213	200	-
Excess of Revenue Over (Under) Expenditures	28,971	4,376	(9,787)	(59,298)	1,683	140
Other Financing Sources (Uses)						
Transfers in	-	-	-	10,000	10,000	-
Transfers out	(4,401)	-	-	-	-	-
Total other financing sources (uses)	(4,401)	-	-	10,000	10,000	-
Net Change in Fund Balances	24,570	4,376	(9,787)	(49,298)	11,683	140
Fund Balances - Beginning of year	93,672	24,480	160,006	50,828	46,692	5,174
Fund Balances - End of year	\$ 118,242	\$ 28,856	\$ 150,219	\$ 1,530	\$ 58,375	\$ 5,314

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2008

Special Revenue Fund	Debt Service Funds		
Revenue Sharing Stabilization	Road Bond	City Hall Bonds	Total Nonmajor Governmental Funds
\$ -	\$ 250,214	\$ 170,145	\$ 420,359
-	-	-	61,608
-	-	-	6,579
9,397	944	2,132	26,540
-	-	-	110
9,397	251,158	172,277	515,196
-	-	-	54,866
-	-	520	1,470
-	-	-	60,463
-	226,618	173,350	399,968
-	226,618	173,870	516,767
9,397	24,540	(1,593)	(1,571)
300,000	7,263	-	327,263
-	-	-	(4,401)
300,000	7,263	-	322,862
309,397	31,803	(1,593)	321,291
-	10,810	23,579	415,241
\$ 309,397	\$ 42,613	\$ 21,986	\$ 736,532

City of Gibraltar, Michigan

Other Supplemental Information Combining Statement of Net Assets Pension Trust Funds June 30, 2008

	Pension Trust Funds		
	General Employees' Retirement System	Public Safety Officers' Retirement System	Retiree Health Care Fund
Assets			
Cash and cash equivalents	\$ 30,735	\$ 549,983	\$ 516,206
Stocks	691,147	4,869,712	-
Bonds	347,155	1,796,089	-
Receivables - Accrued interest	-	14,389	537
Net Assets - Held in trust for employees' retirement systems	\$ 1,069,037	\$ 7,230,173	\$ 516,743

City of Gibraltar, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Pension Trust Funds Year Ended June 30, 2008

	General Employees' Retirement System	Public Safety Officers' Retirement System	Retiree Health Care Fund
Additions			
Investment income (loss):			
Interest and dividends	\$ -	\$ 162,658	\$ 16,743
Investment expense	(22,808)	(15,031)	-
Net decrease in fair value of investments	<u>(33,659)</u>	<u>(741,928)</u>	<u>-</u>
Net investment loss	(56,467)	(594,301)	16,743
Contributions:			
Employer	40,929	27,849	500,000
Employee	<u>17,275</u>	<u>47,094</u>	<u>-</u>
Total contributions	<u>58,204</u>	<u>74,943</u>	<u>500,000</u>
Net additions	1,737	(519,358)	516,743
Deductions - Benefit payments	<u>3,675</u>	<u>340,393</u>	<u>-</u>
Net (Decrease) Increase in Net Assets	(1,938)	(859,751)	516,743
Net Assets Held in Trust for Pension Benefits			
Beginning of year	<u>1,070,975</u>	<u>8,089,924</u>	<u>-</u>
End of year	<u>\$ 1,069,037</u>	<u>\$ 7,230,173</u>	<u>\$ 516,743</u>

City of Gibraltar, Michigan

Other Supplemental Information Balance Sheet - Modified Accrual Basis of Accounting Component Unit Year Ended June 30, 2008

	Downtown Development Authority
	<hr/>
Assets	
Cash and investments	\$ 823,487
Accrued interest and dividends	<hr/> 648
Total assets	<u>\$ 824,135</u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 21,723
Due to primary government	<hr/> 2,812
Total liabilities	24,535
Fund Balance - Unreserved	<hr/> 799,600
Total liabilities and fund balance	<u>\$ 824,135</u>
Fund Balance of DDA	\$ 799,600
Amounts reported for the DDA in the statement of net assets are different because:	
Capital assets used in the DDA are recorded in the statement of net assets	3,583,320
Accrued interest on long-term liabilities is recorded in the statement of net assets	(19,357)
Long-term liabilities are not due and payable in the current period and are recorded in the statement of net assets	<hr/> (3,020,000)
Net Assets of DDA	<u>\$ 1,343,563</u>

City of Gibraltar, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance Modified Accrual Basis of Accounting Component Unit Year Ended June 30, 2008

	Downtown Development Authority
Revenues	
Property taxes	\$ 607,433
Interest and rentals	29,410
Total revenues	636,843
Expenditures	
Community maintenance and development	71,857
Capital outlay and other	101,820
Debt service - Interest	117,820
Debt service - Principal payment	125,000
Total expenditures	416,497
Net Change in Fund Balance	220,346
Fund Balance - Beginning of year	579,254
Fund Balance - End of year	\$ 799,600
Net Change in Fund Balance of DDA	\$ 220,346
Amounts reported for the DDA in the statement of activities are different because:	
Capital outlay expenditures are allocated over their estimated useful lives as depreciation in the statement of activities	(84,111)
Repayment of bond principal is not an expenditure in the statement of activities (where it reduces long-term debt)	125,000
Accrued interest expense on long-term debt is recorded in the statement of activities	520
Change in Net Assets of DDA	\$ 261,755

City of Gibraltar

Report to the City Council
June 30, 2008



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September 23, 2008

To the Mayor and Members
of City Council
City of Gibraltar

We have recently completed our audit of the basic financial statements of the City of Gibraltar (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, and informational comments which impact the City:

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We are grateful for the opportunity to be of service to the City of Gibraltar. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC

Blake M. Roe

William E. Brickey





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September 23, 2008

Report on Internal Control

To the Mayor and Members
of City Council
City of Gibraltar

Dear Mayor and Council Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Gibraltar as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

- Auditor-identified journal entries were posted to the City's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles. We are happy to assist in adjusting the City's general ledger, but are also required to communicate our part in completing the City's accounting records to you. A number of these journal entries were related to property taxes, restricted assets, retirement system investment activities, long-term debt, capital assets, accounts payable, accounts receivable, and items required for the full accrual presentation of the government-wide statements.

In addition to the above, we have identified additional matters that we would like to communicate as a result of our audit. These matters are not considered to be significant deficiencies or material weaknesses.

- During our review of the City's bank reconciliation procedures, we noted that reconciliations are not reviewed after preparation. We would suggest having an individual independent of the accounting function review the reconciliations on a monthly basis.

This communication is intended solely for the information and use of management, the Council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



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Results of the Audit

September 23, 2008

To the Mayor and Members
of City Council
City of Gibraltar

Dear Mayor and Council Members:

We have audited the financial statements of City of Gibraltar for the year ended June 30, 2008 and have issued our report thereon dated September 23, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 1, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Gibraltar. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 1, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Gibraltar are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during June 30, 2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the estimate of accounts receivable related to unbilled water and sewer fees.

Management's estimate of the unbilled water and sewer fees is based on historical information. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 4 - Capital Assets, Note 6 - Long-term Debt, and Note 9 - Defined Benefit Pension Plan.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements were detected as a result of audit procedures and were corrected by management. Entries related to property taxes, restricted assets, retirement system investment activities, long-term debt, capital assets, accounts payable, accounts receivable and items required for the full accrual presentation of the government-wide statements were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

This information is intended solely for the use of the members of City Council and management of the City of Gibraltar and is not intended to be and should not be used by anyone other than these specified parties.

Informational and Legislative Items

Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.

Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have re-learned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it re-connects with market values).

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value,” needs to be added to the Proposal A formula. In what some are calling a “super cap,” the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. To date, a proposal to accomplish this change has not moved through the Legislature. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the six mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.
- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e., such as street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements does not constitute a taxable addition.

State-shared Revenue

The governor released her proposal of the State’s fiscal year 2009 budget (for the year ended September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the Legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue-sharing equal to the projected fiscal year 2008 (fiscal year ended September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in fiscal year 2007. This proposal was presented to the governor on July 25, and is awaiting her signature.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% Change
Cities, villages, and townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	404.920	392.050	406.933	3.80%
Total to cities,villages,townships	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	-	-	2.394	n/a
Total revenue sharing	\$ 1,070.900	\$ 1,074.830	\$ 1,085.319	0.98%

While the projection is for an overall increase of 0.75 percent (for cities, villages and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in FY 2009 to equal the total of constitutional and statutory revenue sharing received in FY 2008, plus an additional payment equal to 2 percent of the FY 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for FY 2009 will be identical to the amounts received in FY 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

The table below details state-shared revenue for the City since 2004, broken out by statutory and constitutional portions.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>
2004	\$ 160,586	\$ 280,557	\$ 441,143
2005	143,437	287,308	430,745
2006	133,692	292,665	426,357
2007	127,063	286,692	413,755
2008	117,492	296,263	413,755
2009 est	125,294	291,002	416,296

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$125,294 at risk in its General Fund budget based on 2009 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

Reminder - Change in Investment Act

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

Other Legislative Items

- As part of Michigan's new "Planning Enabling Act," many local governments will now be required to prepare an annual "capital improvements program." This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Townships that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran strongly encourages the development of a capital plan. While the law is restricted to "public structures and improvements," we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishing, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as “Public Act 20,” which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.